

24 SEP 1946

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GENERAL

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1. Israeli representatives comment on Bernadotte plan--US
Embassy London reports that Israeli representatives in London and at the UN have expressed the feeling that Count Bernadotte's plan represents a great advance over his previous proposals for Palestine. Both representatives, however, stressed Israel's "strong sentimental attachment" for the Negeb (awarded to the Arabs under the Bernadotte plan). Embassy London received the impression from the Israeli representative that Israel was confident of obtaining sufficient backing in the UN to modify the plan with respect to the Negeb and to provide the Jews with a corridor to Jerusalem or at least "an enforced guarantee of access." The representative appeared optimistic about gaining US support, hinting broadly that because of "its political repercussions in the US" Secretary of State Marshall's statement in support of the plan might not be the final US word on the subject.

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NAVY review(s) completed.

State Department review
completed

Document No. 74

NO CHANGE in Class. ☐☒ DECLASSIFIED

Class. CHANGED TO: TS 15 10

Auth: LRA J-G 7/17/53

Date: 15 MAR 1953

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FAR EAST

3. **CHINA: New US dollar black market in Shanghai**--US Consul General Shanghai has confirmed the reappearance (since the recent Chinese currency reform) of a US dollar black market in Shanghai. The Consul General reports that trading reached sufficient strength during the week to get beyond police control.

(CIA Comment: This break in the currency is a serious threat to the National Government's economic reform program and may set off the predicted collapse of the new currency. Further development of currency weakness, combined with the deteriorating military situation, may shortly result in the most severe crisis the Government has yet experienced.)

Fall of Tsinan appears imminent--Commander US Naval Forces West Pacific reports that the Nationalist-held Shan-tung capital of Tsinan will probably fall to the Communist attacking force in a "few days." The naval officer indicates that observers are divided as to whether the Communists will then move east toward Tsingtao or south toward the Government stronghold of Hsuehou. The US officer believes a Communist attack on Tsingtao is a distinct possibility and may be preceded by internal disorders and incidents in that city.

(CIA Comment: Although the eventual capture of Tsinan appears inevitable, Nationalist General Wang Yao-wu will undoubtedly make a determined stand and may be able to hold out for some time if he can prevent the defection of his ill-trained, provincial troops. CIA believes that the most likely Communist objective, following the fall of Tsinan, is Hsuehou rather than Tsingtao.)

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